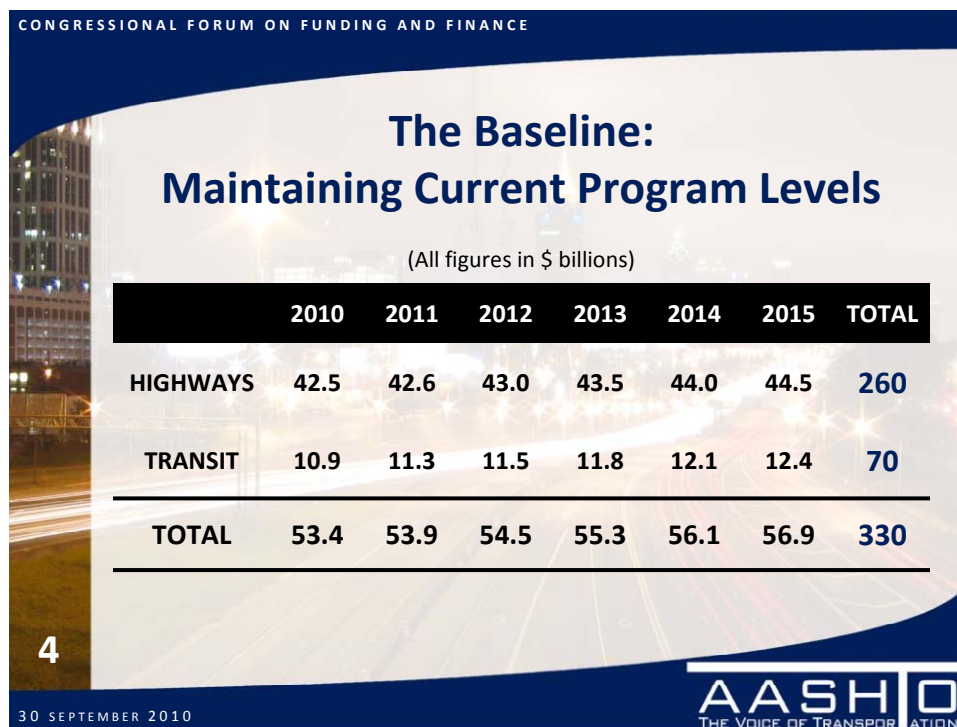


## Possible Option on How to Sustain Baseline Funding for Highways and Transit through FY2015 -Switch to a Sales Tax on Motor Fuels.

John Horsley, Executive Director, AASHTO

September 30, 2010 Congressional Forum on “Funding and Financing Solutions for Surface Transportation in the Coming Decade.”

As much as AASHTO’s members, the Departments of Transportation for the 50 states, Washington D.C. and Puerto Rico, support increasing federal highway, transit, and high speed rail funding to the \$500 billion level proposed in the House, an essential first step is to sustain the baseline for surface transportation funding through 2015:

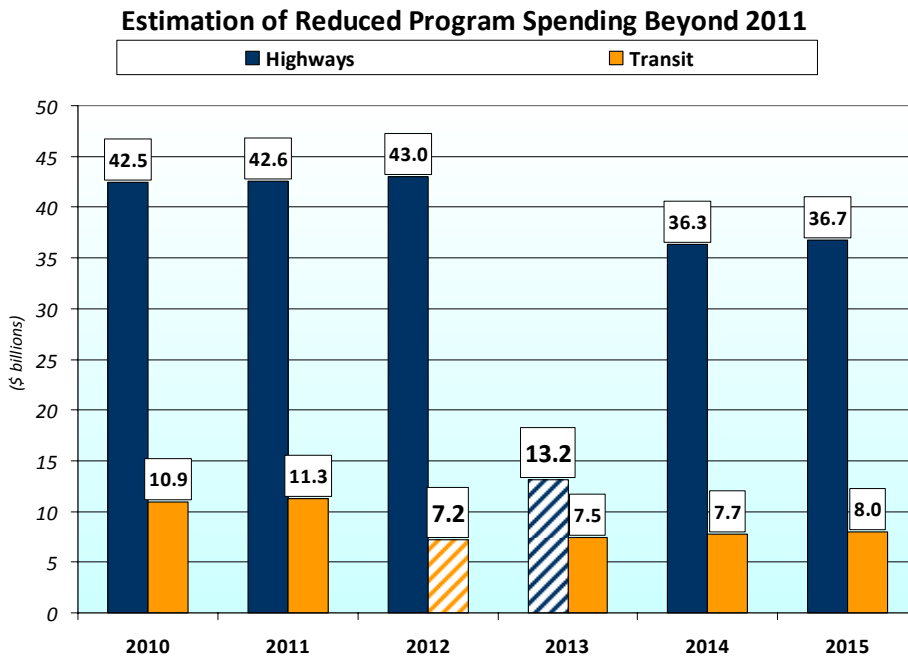


What I would like to outline in this presentation is one option, out of several which our Members have asked us to explore, which could assure sustained funding for the highway and transit programs.

First, let me describe where funding for the Highway and Transit programs stand right now. On September 30, last year the program expired. In March, 2010 the Program was extended to December 31, 2010 and \$19.5 billion was transferred into the Highway Trust Fund to keep it solvent. In FY 2010, \$36.6 billion in revenues are flowing in to the Highway Trust Fund and \$49.6 billion in Outlays are flowing out.

Federal and State finance experts agree that the \$19.5 billion transferred from the General Fund to the Highway Trust Fund in March, 2010 should be able to sustain the highway and transit programs through September, 2012. At that point, unless Congress agrees to

transfer additional dollars into the Highway Trust Fund, the program faces a cutback of approximately \$63 billion during the final four years of this six-year funding cycle.



Congress agreed to transfer \$8.1 billion into the program in 2008, \$7 billion in 2009, and \$19.5 billion in 2010 back into the Highway Trust Fund because they were persuaded that this was \$34.5 billion originally generated by transportation. It will be difficult to make that argument for additional transfers.

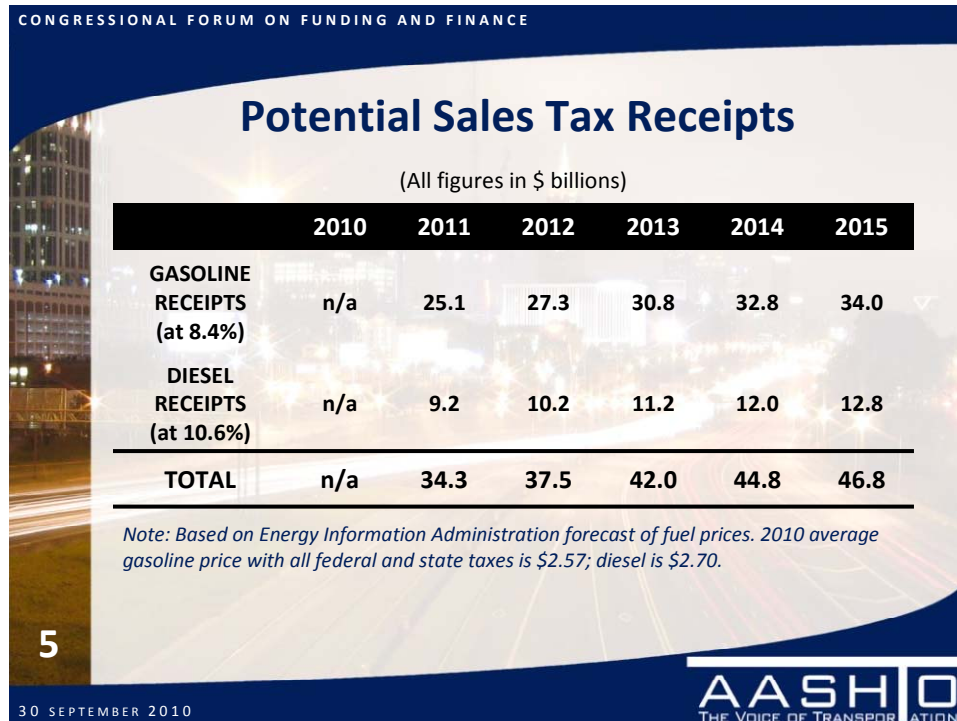
To avoid cutting the program severely in FY 2013, 2014, and 2015 we believe Congress will insist on a solution that meets five tests:

1. It does not increase the federal deficit.
2. It will not raise taxes.
3. It can win bipartisan support.
4. The President will sign the bill into law, and
5. It must have the demonstrated potential to do a better job of funding the Highway Trust Fund in the future, than the current “cents-per-gallon” tax on gas and diesel.

We believe there is an option that meets all five tests. It is one of several options our Board of Directors approved for us to explore in 2008, and again in May, 2010 to assure that the authority for the program is extended before it expires December 31, and to assure sustained federal highway and transit funding once the \$19.5 billion transfer is used up.

The concept is to replace the current excise tax on gas and diesel with a sales tax on motor fuels.

As illustrated in the chart below, if a sales tax replaced the excise tax, the rate for gasoline would drop from 18.4 cents per gallon to 8.4 percent, and the rate for diesel would drop from 24.4 cents per gallon to 10.6 percent.



On a revenue neutral basis, the concept is to switch one for the other.

At the pump, drivers will see no difference.

In the year the change is enacted there will be no change in revenue.

It will be revenue-neutral.

However, if fuel prices increase by the modest annual rate forecast by the U.S. Department of Energy over the next six years, cumulative revenues flowing into the Highway Trust Fund by 2016 will increase \$43 billion over what is forecast from current taxes on gas and diesel.

Illustrated in the chart below is a comparison of the revenue forecast by the U.S. Department of Treasury to be generated from gas and diesel excise taxes over the next six years, compared to the revenue AASHTO's analysis believes can be generated by a switch to a federal sales tax on motor fuels.

## Comparison of Revenue Potential

(All figures in \$ billions)

		2011	2012	2013	2014	2015	2016	TOTAL (2011- 2016)
<b>FUEL EXCISE</b>								
TAX RECEIPTS	33.6	34.3	34.3	35.0	35.7	35.7	35.6	211
<b>FUEL SALES</b>								
TAX RECEIPTS	n/a	34.3	37.5	42.0	44.8	46.8	49.1	254
<b>DIFFERENCE</b>	n/a	0.0	3.2	7.0	9.1	11.0	13.5	43

*Revenue-neutral  
in 2011*

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According to the analysis AASHTO has done, the net increase in revenue generated between 2011 and 2016, should be sufficient, give or take \$5 billion, to sustain the baseline of the Highway and Transit Programs during FY 2013, 2014 and 2015. The alternative is a reduction in those programs of around \$63 billion.

If such an option could be implemented, funding for the federal surface transportation program would increase from the \$286.5 billion provided under SAFETEA-LU, to a foundation of approximately \$330 billion over this six year cycle.

We acknowledge that National needs cannot be met at that level, and we will continue to campaign aggressively to fund the program at the \$450 billion level proposed in the House. We will also campaign to secure \$50 billion in additional funding for High Speed Rail over the next six years.

However, securing guaranteed funding for the Highway and Transit Baseline will represent a vital first step toward the broader goal of a well-funded federal surface transportation program.

So what evidence is there that a sales tax is a better approach?

Data from the State of California shows that in the five years from 2004 to 2009, revenues from its 5% sales tax increased by 60% from 1.5 \$ billion to \$2.4 billion, while revenues from its 18 cents per gallon gas tax dropped by 7% from \$2.8 billion to \$2.6 billion.

## State Experiences with Sales Tax: California

Fiscal Year	Sales Tax Rate	Gasoline Sales Taxes Collected	Excise Tax Rate	Gasoline Excise Taxes Collected
2004-05	5%	\$1,551	\$0.18 cpg	\$2,832
2005-06	5%	\$1,807	\$0.18 cpg	\$2,840
2006-07	5%	\$2,037	\$0.18 cpg	\$2,849
2007-08	5%	\$2,208	\$0.18 cpg	\$2,827
2008-09	5%/6%	\$2,422	\$0.18 cpg	\$2,664

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Data from the State of Georgia shows that in the last eight years, revenues from its sales tax on fuels increased from \$216 million in FY2003 to \$385 million this last year, an increase of 78%. (Motor fuel sales tax revenues surged to even higher levels during the recent period where prices increased so substantially: \$468 million in FY2007, \$538 million in FY2008, and \$422 million in FY2009.) During the same eight years, revenues from Georgia's cents per gallon excise tax on gas stayed virtually constant, increasing from \$458 million in FY2003 to \$462 million in FY2010.

So to wrap it up, an option we would like to see considered is whether switching to a sales tax on motor fuels is a concept which can be embraced by a bi-partisan majority in Congress. It is an option which does not increase the deficit; is revenue neutral, and can generate \$43 billion more than the gas tax by 2016, can sustain baseline funding for highways and transit and avoid a program reduction of over \$60 billion.